

Message Text

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PAGE 01 TOKYO 03965 261158Z

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ACTION EA-14

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CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 AECE-00

SAJ-01 DOTE-00 PA-04 USIA-15 PRS-01 DRC-01 NIC-01

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TO SECSTATE WASHDC PRIORITY 0825

INFO AMEMBASSY MOSCOW

AMCONSUL HONG KONG

USLO PEKING

CINCPAC HONOLULU HI

C O N F I D E N T I A L TOKYO 3965

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: ENRG, PFOR, JA, UR

SUBJ: JAPANESE BUSINESS LEADERS' VISIT TO MOSCOW

SUMMARY: DURING MEETING WITH JAPANESE BUSINESS LEADERS, SOVIET PREMIER KOSYGIN PROPOSED THAT NEW \$3 MBILLION RAILROAD BE CONSTRUCTED, INSTEAD OF PIPELINE, TO TRANSPORT TYUMEN OIL ACROSS SIBERIA. KOSYGIN ALSO PROPOSED JAPANESE FINANCIAL COOPERATION IN PAPER PULP PROJECT AND IN CONSTRUCTION OF ATOMIC POWER PLANT IN SAKHALIN WHICH WOULD SUPPLY POWER TO JAPAN. JAPANESE INITIALLY SOMEWHAT SKEPTICAL ABOUT FEASIBILITY OF TYUMEN RAILROAD IDEA AND SEEM WARY OF ITS POSSIBLE IMPACT ON RELATIONS WITH PRC, BUT WILL STUDY PROPOSAL. END SUMMARY.

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PAGE 02 TOKYO 03965 261158Z

1. JAPANESE BUSINESS LEADERS KOGORO UEMURA, PRESIDENT OF KEIDANREN (FEDERATION OF ECONOMIC ORGANIZATIONS), AND SHIGEO NAGANO, PRESIDENT OF JAPAN CHAMBER OF COMMERCE VISITED MOSCOW MARCH 21-26 FOR GENERAL DISCUSSION OF SIBERIAN DEVELOPMENT PROJECTS. THEY WENT IN CAPACITY AS OFFICIALS OF JAPAN-SOVIET ECONOMIC COOPERATION COMMITTEE PRIMARILY FOR MEETINGS WITH HEAD OF COUNTERPART ORGANIZATION, SOVIET-JAPAN ECONOMIC COOPERATION COMMITTEE, IVAN SEMICHASTNOV, BUT THEY ALSO HAD MEETINGS WITH PREMIER KOSYGIN, COMMUNIST PARTY CHIEF BREZHNEV, AND GOSPLAN HEAD BAIBAKOV. DEPUTY HEAD OF FONOFF FIRST EAST EUROPE DIV., NOMURA, PROVIDED EMBASSY WITH FOLLOWING BRIEFING ON WHAT IS KNOWN SO FAR OF MEETINGS WITH SOVIET LEADERS (UEMURA AND NAGANO HAVE NOT YET RETURNED TO TOKYO).

2. MOST IMPORTANT PART OF VISIT WAS LONG MEETING WITH PREMIER KOSYGIN. DURING SESSION KOSYGIN OFFERED FOLLOWING NEW THREE-PART PROPOSAL ON TYUMEN PIPELINE: A) PREMIER KOSYGIN TOLD UEMURA AND NAGANO THAT SOVIET UNION BELIEVED THAT MEANS OF TRANSPORTING TYUMEN OIL TO JAPAN SHOULD BE REVIEWED. IN PLACE OF PIPELINE FROM TYUMEN TO NAKHODKA, KOSYGIN SUGGESTED THAT BETTER MEANS WOULD BE TO PIPE OIL ONLY AS FAR ASIRKUTSK, AND FROM THERE TO BUILD NEW RAIL LINE TO NAKHODKA; B) KOSYGIN ESTIMATED THAT CONSTRUCTION OF RAILROAD WOULD REQUIRE ABOUT \$3 BILLION IN CREDITS FROM ABROAD; C) IF JAPAN WOULD AGREE TO PROVIDE FINANCING FOR RAILROAD, SOVIET UNION WOULD GUARANTEE TO SUPPLY JAPAN WITH 25 MILLION TONS PER YEAR OF OIL WITH POSSIBILITY OF INCREASING THIS AMOUNT LATER. NOMURA NOTED THAT PREVIOUS SOVIET OFFER, MADE BY SEMICHASTNOV IN JAPAN LAST AUGUST HAD BEEN FOR EXPORT OF MAXIMUM OF 25 MILLION TONS PER YEAR OF OIL.

3. KOSYGIN HAD FOLLOWING OTHER COMMENTS ON SIBERIAN PROJECTS, ACCORDING TO NOMURA:

A) YAKUTSK GAS PROJECT--KOSYGIN NOTED THAT MOST PROPOSALS CALLED FOR GAS TO BE PIPED TO COAST OF SEA OF JAPAN, WHERE IT WOULD BE LIQUEFIED. HOWEVER, KOSYGIN ADDED THAT DR. HAMMER OF OCCIDENTAL HAD PROPOSED THAT GAS BE CONVERTED TO METHANOL (INSTEAD OF LNG) AND THEN TRANSCONFIDENTIAL

CONFIDENTIAL

PAGE 03 TOKYO 03965 261158Z

FERRED BY TANKER TO US AND JAPAN. NOMURA WAS UNABLE TO ASSESS SIGNIFICANCE OF THESE REMARKS.

B) YAKUTSK COAL--DISCUSSION CENTERED ON SOVIET REQUEST FOR CREDITS FOR CONSUMER GOODS THAT WOULD BE PROVIDED ALONG WITH EQUIPMENT CREDITS. KOSYGIN SUGGESTED THAT THESE BE PROVIDED OUTSIDE FRAMEWORK OF PROJECT.

C) SAKHALIN--EXPLORATION OF OIL AND GAS WAS DISCUSSED, BUT NOTHING NEW DEVELOPED.

4. IN ADDITION, KOSYGIN PROPOSED TWO NEW SIBERIAN DEVELOPMENT PROJECTS FOR JAPANESE CONSIDERATION. FIRST OF THESE WAS CONSTRUCTION OF PAPER AND PULP PLANT IN SIBERIA. NOMURA NOTED THAT THIS PROJECT HAD BEEN DISCUSSED ABOUT FIVE YEARS AGO, BUT AT THAT TIME JAPANESE WERE NOT INTERESTED IN IMPORTING FINISHED AND SEMI-FINISHED PAPER PRODUCTS FROM USSR. ALTHOUGH KOSYGIN HAD PROVIDED NO DETAILS ON AMOUNT OF CREDITS SOUGHT OR POSSIBLE EXPORT AMOUNT, NOMURA SAID HE BELIEVED JAPANESE FIRMS WOULD BE RECEPTIVE TO IDEA. SECOND NEW PROJECT INVOLVED SALE OF ELECTRICITY TO JAPAN. KOSYGIN PROPOSED CONSTRUCTION OF FOUR MILLION KW ATOMIC POWER PLANT ON SAKHALIN ISLAND. IN RETURN FOR JAPANESE ASSISTANCE IN FINANCING VENTURE, SOVIETS WOULD SELL SOME OF OUTPUT TO JAPAN.

5. NOMURA WENT ON TO COMMENT THAT FONOFF HAD NOT HAD MUCH CHANCE TO EVALUATE TYUMEN RAILROAD PROPOSAL. AT GLANCE, HOWEVER, FEASIBILITY OF TRANSPORTING 70-80,000 TONS OF OIL PER DAY BY RAIL SEEMED SOMEWHAT QUESTIONABLE. PRESUMABLY REFERRING TO CHINESE VIEWS, NOMURA ADDED THAT THERE WERE ALSO CERTAIN POLITICAL PROBLEMS THAT HAD TO BE TAKEN INTO ACCOUNT. NOMURA NOTED, HOWEVER, THAT KOSYGIN HAD MADE POINT OF REMINDING UEMURA AND NAGANO THAT SIBERIAN DEVELOPMENT PROJECTS HAD TO BE BENEFICIAL TO BOTH SIDES. FONOFF BELIEVES THAT THIS STATEMENT MEANT TO IMPLY THAT CONSTRUCTION OF NEW RAILROAD IN SIBERIAN AREA IS AN ESSENTIAL PART OF SOVIET PLAN FOR DEVELOPMENT OF SIBERIA.

6. IN RESPONSE TO QUESTION, NOMURA NOTED THAT FURTHER DISCUSSIONS ON SIBERIAN DEVELOPMENT WOULD BE HELD SHORTLY. SOVIET DEPUTY MINISTER OF FOREIGN TRADE ALKHIMOV AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 TOKYO 03965 261158Z

FOREIGN TRADE BANK PRESIDENT MAKEEV DUE IN JAPAN MARCH 31 AT INVITATION OF JAPANESE EXIMBANK FOR DISCUSSION OF CREDIT ARRANGEMENTS FOR ALL OF SIBERIAN DEVELOPMENT PROJECTS. NIKOLAYENKO, PRESIDENT OF SOYUZPROMEXPORT, ALSO EXPECTED TO BE PART OF DELEGATION ALTHOUGH HE WILL FOCUS EXCLUSIVELY ON YAKUTSK COAL PROJECT.

7. COMMENT: WHILE NOMURA DID NOT VOLUNTEER ANY VIEWS ON WHAT JAPANESE REACTION TO KOSYGIN PROPOSAL ON TYUMEN OIL HAD BEEN, WE THINK THEY MUST HAVE BEEN VERY SURPRISED AND DISMAYED AT SUCH DRAMATIC SHIFT IN SOVIET POLICY. WE WOULD NOT BE SURPRISED IF JAPANESE TRIED TO STEER PROJECT BACK TO ORIGINAL PIPELINE CONCEPT, ON WHICH EXTENSIVE FEASIBILITY STUDIES HAVE BEEN DONE RATHER THAN EMBARKING ON ENTIRELY NEW PROJECT.

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